

Message Text

PAGE 01 STATE 064165
ORIGIN EUR-20

INFO OCT-01 ISO-00 /021 R

DRAFTED BY INR/REC: CSMONROE:JMB
APPROVED BY INR/DD: RKIRK
NEA/ARP: JZIOLKOWSKI
EB/IFD/OMA: RJRYAN
EUR/RPE: JPOLANSKY
EUR/RPM: JMADDEN/TSVAVAGE
INR/REC: LJKENNON

-----230707Z 049969 /14

P R 230219Z MAR 77
FM SECSTATE WASHDC
TO OIC PTC
INFO ALL NATO CAPITALS

C O N F I D E N T I A L STATE 064165

E.O. 11652: GDS

TAGS: NATO, EFIN, XF

SUBJECT: NATO ASSESSMENT SERIES CONTRIBUTION

PASS FOLLOWING VIA THE NATO-WIDE COMMUNICATIONS SYSTEM
PP RWFVA RWFVB RWFVD RWFVE RWFVF RFWG RFWH RFWI RFWK
RFWL RFWM RFWN RFWO RFWP RFWQ RFWR RFWZ
DE RWFWS #4165 0820219
ZNY CCCCC
P R 230219Z MAR 77
FM WASHINGTON
TO AIG 6006
AIG 6007
B T
NATO CLASSIFICATION: CONFIDENTIAL FROM WASHINGTON
NADA/ASSESSMENT/MAR 04/MFA WASHINGTON
CONFIDENTIAL

PAGE 02 STATE 064165

SUBJECT: THE ARABIAN PENINSULA: PROSPECTS FOR A GULF
DINAR

1. BEGIN SUMMARY. IN 1975, REPRESENTATIVES FROM FOUR
ARAB GULF STATES--KUWAIT, BAHRAIN, QATAR, AND THE UNITED
ARAB EMIRATES (UAE)--BEGAN DISCUSSIONS ON PROPOSALS FOR THE
CREATION OF A COMMON CURRENCY. SINCE THAT TIME, GULF STATE
REPRESENTATIVES HAVE REACHED AGREEMENT ON ALL BUT A FEW

TECHNICAL POINTS FOR THE ISSUANCE OF A NEW MONETARY UNIT,

TO BE CALLED THE "GULF DINAR."

2. PENDING THE FORMAL ANNOUNCEMENT AND IMPLEMENTATION OF THE GULF DINAR SCHEME, THREE OF THE PARTICIPATING STATES--QATAR, BAHRAIN, AND THE UAE--HAVE ALREADY LINKED THEIR CURRENCIES, AND ARE ALLOWING THEM TO BE USED INTERCHANGEABLY FOR SMALL TRANSACTIONS.

3. THE FOUR STATES DO NOT SEEM TO BE LIKELY CANDIDATES FOR A COMMON CURRENCY--THERE IS LITTLE INTRAREGIONAL TRADE, LOW MOBILITY OF LABOR AND CAPITAL, AND LITTLE TRADEOFF BETWEEN EMPLOYMENT LEVELS AND PRICE STABILITY GENERALLY ASSOCIATED WITH A LARGE CURRENCY AREA. NEVERTHELESS, THE GULF DINAR IS THE REGIONAL ECONOMIC CONCEPT THAT HAS RECEIVED THE GREATEST AMOUNT OF SUPPORT FROM GULF STATES. THE SCHEME IS LIKELY TO BE IMPLEMENTED BECAUSE OF ITS IMPORTANCE AS A SYMBOL OF POLITICAL COOPERATION RATHER THAN AS A MEASURE OF ECONOMIC UNITY. END SUMMARY.

4. BEGIN TEXT. IN RECENT MONTHS, ARAB GULF LEADERS HAVE DISCUSSED A NUMBER OF PROPOSALS THAT THEY HOPE WOULD ENHANCE ECONOMIC DEVELOPMENT OF THE REGION. THE KUWAITI GOVERNMENT HAS SPONSORED MANY OF THESE IN AN EFFORT TO PROMOTE GULF PROGRAMS IN TRANSPORTATION, INDUSTRY, AND MONETARY AFFAIRS.

CONFIDENTIAL

PAGE 03 STATE 064165

5. THE KUWAITIS HAVE LONG BEEN A PROPONENT OF GULF CURRENCY UNIFICATION. HOWEVER, THEIR PROPOSALS RECEIVED LITTLE ATTENTION UNTIL MARCH 1975, WHEN THE QATARI GOVERNMENT SUGGESTED THE CREATION OF A NEW UNIT TO SUPPLANT THE DOLLAR AS A TRANSACTIONS CURRENCY FOR OIL AND OTHER COMMODITIES. SINCE THEN, GULF REPRESENTATIVES HAVE MET FOUR TIMES AND HAVE REACHED AGREEMENT ON ALL BUT A FEW POINTS FOR THE ISSUANCE OF A COMMON MONETARY UNIT TO BE CALLED THE "GULF DINAR."

6. THE DINAR SCHEME

7. THE PARTICIPANTS. IN JUNE 1975, REPRESENTATIVES FROM KUWAIT, QATAR, THE UNITED ARAB EMIRATES (UAE), AND BAHRAIN MET TO CONSIDER PROPOSALS FOR THE CREATION OF THE GULF DINAR. SAUDI ARABIA AND OMAN WERE INVITED TO PARTICIPATE IN THE NEGOTIATIONS. THE SAUDIS LIMITED THEIR PARTICIPATION TO SENDING AN OCCASIONAL OBSERVER TO MEETINGS. THE OMANI GOVERNMENT INDICATED THAT IT WAS NOT INTERESTED IN JOINING A COMMON CURRENCY AREA SINCE OMAN'S ECONOMIC, POLITICAL, AND SOCIAL STRUCTURE WAS TOO DIFFERENT FROM THAT OF THE OTHER PARTICIPANTS. PRESUMABLY, THE OMANIS FEARED THAT

PARTICIPATION WOULD INVITE KUWAITI DOMINANCE OF THEIR ECONOMIC AND FINANCIAL DECISIONMAKING. KUWAITI EFFORTS

TO PUSH FOR COOPERATION IN ENERGY, SHIPPING, AVIATION, AND COMMUNICATIONS AS WELL AS IN MONETARY AFFAIRS HAVE OFTEN BEEN VIEWED BY THE SMALLER GULF STATES AS A FORM OF "MINI-IMPERIALISM."

8. CURRENCY ALIGNMENT AND THE PEG. THE PLAN AS AGREED BY THE FOUR COUNTRIES IS FOR THE GULF DINAR TO BE MADE EQUIVALENT TO THE BAHRAINI DINAR (1GD 1BD) AND BE OFFICIALLY PEGGED TO THE IMF SPECIAL DRAWING RIGHTS AT A RATE OF 1GD 2.1SDR. (NOTE: ON DECEMBER 31, 1976: 1 CONFIDENTIAL

PAGE 04 STATE 064165

KUWAITI DINAR (KD) 2.9995 SDR DOL 3.4849; 1 BAHRAINI DINAR (BD) 2.1755 SDR DOL 2.5275; 1 QATARI RIYAL (QR) .21745 SDR DOL 0.25263; 1 UAE DIRHAM (UAEDH) .21805 SDR DOL 0.25333.) EVIDENTLY, SOME VARIATIONS AROUND THE PEG WILL BE ALLOWED SINCE THE PARTICIPANTS PLAN TO ALLOW FOR A DAILY MARKET RATE BASED ON A BASKET OF THREE CURRENCIES. THE WIDTH OF THE BAND HAS YET TO BE DETERMINED. THE QATARI RIYAL AND THE UAE DIRHAM WILL BE UNITED WITH THE BAHRAINI DINAR AT A 10:1 RATIO. THE KUWAITI DINAR WILL BE DEVALUED SLIGHTLY IN ORDER TO LINE UP WITH THE OTHERS.

9. NEW CURRENCY NOTES WOULD BE ISSUED IN ALL FOUR STATES WITH FINE-PRINT NOTATION OF THE ISSUING AUTHORITY. CENTRAL BANK OFFICIALS PLAN ON HAVING THE NEWLY CREATED DINAR IN CIRCULATION AS LEGAL TENDER BY JANUARY 1, 1978, AND TO FULLY REPLACE THE FOUR NATIONAL CURRENCIES WITHIN THREE MONTHS.

10. BANKING. ONE OF THE FIRST QUESTIONS THAT HAD TO BE RESOLVED WAS HOW FOREIGN BANKS WOULD OPERATE IN THESE COUNTRIES. KUWAIT PRESENTLY BANS BRANCHES OF FOREIGN BANKS AND HAS STRICT LAWS LIMITING INTEREST RATES TO 7 PERCENT. BY COMPARISON, THE UAE HAS ALLOWED 47 BRANCH BANKS, AND THE SCRAMBLE FOR DIRHAM DEPOSITS IN THE UAE HAS PUSHED THE INTEREST RATE ON DEPOSITS IN A FAIRLY OPEN MARKET TO OVER 10 PERCENT.

11. ALL CENTRAL BANK REPRESENTATIVES BELIEVED THAT, UNDER A COMMON CURRENCY, ALL GULF BANKS WOULD BE ALLOWED TO LEND IN THE ENTIRE CURRENCY AREA. KUWAIT HAS AGREED TO GIVE UP ITS INTEREST RATE CEILING IN ORDER TO ALLOW THE FOUR STATES TO MOVE TO A SINGLE RATE WITH THE AIM OF PREVENTING FINANCIAL SPECULATION WITHIN THE COMMON CURRENCY AREA.

CONFIDENTIAL

PAGE 05 STATE 064165

12. ADMINISTRATION. THE GULF STATES DECIDED NOT TO

CREATE A CENTRAL MONETARY AUTHORITY TO ADMINISTER THE UNIFIED CURRENCY BUT TO MANAGE IT BY CLOSE COORDINATION AMONG EXISTING AUTHORITIES. A "PERMANENT SECRETARIAT" WILL BE SET UP IN BAHRAIN, AND A GULF CURRENCY COUNCIL (COMPOSED OF THE FOUR NATIONAL CURRENCY DIRECTORS) WILL MEET PERIODICALLY ON PROBLEMS RELATED TO IMPLEMENTATION.

13. THERE WILL BE NO FORMAL CLEARING HOUSE AMONG THE PARTICIPATING CENTRAL BANKS, THOUGH RECORDS OF CAPITAL FLOWS MAY BE KEPT. THE INDICATION ON THE NEWLY CREATED DINAR OF WHICH NATIONAL MONETARY AGENCY ISSUED IT IS INTENDED TO MAKE RECORDKEEPING POSSIBLE. IF ONE PARTICIPATING COUNTRY EARNS A LARGE SURPLUS OF GULF DINARS FROM A SECOND COUNTRY, THE FIRST COUNTRY MAY REQUEST SETTLEMENT IN FOREIGN EXCHANGE. SUCH PLANS TO KEEP TRACK OF FLOWS AND SETTLE BALANCES ARE AN INDICATION THAT THE CURRENCY PLANS WILL FALL SHORT OF FULL MONETARY UNION.

14. BILATERAL CURRENCY AGREEMENTS.

15. ALTHOUGH AGREEMENT ON A GULF DINAR HAS NOT YET BEEN IMPLEMENTED, THERE HAS BEEN BILATERAL PROGRESS TOWARD CURRENCY UNIFICATION.

16. UAE-QATAR. IN OCTOBER 1975, UAE AND QATARI OFFICIALS ANNOUNCED THEIR INTENTION TO UNIFY THEIR CURRENCIES PRIOR TO THE FULL IMPLEMENTATION OF THE DINAR SCHEME. THE TWO NATIONAL CURRENCIES HAD FORMERLY BEEN UNITED UNTIL MAY 1973. ON SEPTEMBER 1, 1976, THE UAE CURRENCY BOARD ANNOUNCED THAT HENCEFORTH THERE WOULD BE A FREE EXCHANGE OF QATARI RIYALS AND UAE DIRHAMS FOR TRANSACTIONS OF UP TO UAEDH 5,000 AND QR 5,000 FOR ALL BANKS AND BUSINESSES LOCATED IN THE TWO COUNTRIES.

CONFIDENTIAL

PAGE 06 STATE 064165

17. UAE-BAHRAIN. IN JANUARY 1976, THE UAE CURRENCY BOARD AND THE BAHRAIN MONETARY AGENCY ANNOUNCED THAT FOR ALL TRANSACTIONS OF LESS THAN 5,000 DIRHAMS (500 BAHRAIN DINARS), BAHRAIN CURRENCY WOULD BE ACCEPTED IN THE UAE AND VICE VERSA AT THE FIXED RATE OF 10 UAE DIRHAMS 1 BAHRAIN DINAR.

18. THE BAHRAIN MONETARY AGENCY TOOK THE EXPERIMENT A STEP FURTHER IN APRIL BY INCLUDING SOME UAE CURRENCY IN THE PAY PACKETS OF BAHRAIN GOVERNMENT WORKERS. THIS MOVE WAS DESIGNED TO TEST THE ACCEPTABILITY TO THE BAHRAIN PUBLIC OF A NEIGHBORING CURRENCY. BAHRAIN OFFICIALS WERE REPORTED TO BE WELL SATISFIED WITH THE PUBLIC RESPONSE.

19. QATAR-BAHRAIN. IN AUGUST 1976, THE BAHRAIN MONETARY AGENCY ANNOUNCED THAT AS OF SEPTEMBER 1, THE QATARI RIYAL WOULD BE ACCEPTED LOCALLY FOR TRANSACTIONS OF UP TO 500 BAHRAINI DINARS (5,000 QATARI RIYALS) AT A FIXED RATE OF 1 DINAR 10 RIYALS. EARLY IN SEPTEMBER, THE QATAR MONETARY AGENCY MADE A RECIPROCAL ANNOUNCEMENT, THUS COMPLETING LIMITED CURRENCY UNION IN THREE OF THE COUNTRIES.

20. IMPLEMENTATION.

21. DESPITE THE POLITICAL DESIRE FOR THE CREATION OF A GULF DINAR, THE ECONOMIC BENEFITS TO THE PARTICIPATING STATES APPEAR TO BE FEW, AND ARE PRIMARILY THOSE ASSOCIATED WITH THE EFFICIENCIES OF HAVING A SINGLE MONEY. SUCH BENEFITS INCLUDE:

(A)--REDUCED TRANSACTION COSTS ASSOCIATED WITH ENTERING THE FOREIGN EXCHANGE MARKET TO SETTLE REGIONAL CLAIMS;

(B)--SAVINGS DUE TO DISSEMINATING FEWER CURRENCY QUOTATIONS; AND

CONFIDENTIAL

PAGE 07 STATE 064165

(C)--AS GULF PARTNERS CLAIM, REDUCED EXCHANGE RISK ASSOCIATED WITH A LARGER CURRENCY.

IF THE GULF DINAR NOTES INDICATE WHICH CENTRAL BANK WAS THE ISSUING AUTHORITY AND RECORDS ARE KEPT OF DINAR FLOWS, SOME OF THESE SAVINGS WILL BE REDUCED.

22. THE MEAGERNESS OF POTENTIAL BENEFITS STEMS FROM THE GENERAL ABSENCE OF CONDITIONS CONSTITUTING AN OPTIMUM CURRENCY AREA. OPTIMALITY REFERS IN PART TO THE COSTS OF ADJUSTMENT TO INTERNAL AND EXTERNAL DISTURBANCES AND HOW BEST TO TRADE OFF FULL EMPLOYMENT AND PRICE STABILITY ON THE ASSUMPTION THAT ONE OCCURS AT THE EXPENSE OF THE OTHER, WHICH IS GENERALLY THE CASE IN A LARGE CURRENCY AREA. THIS ASSUMPTION DOES NOT HOLD TRUE WHEN APPLIED TO THE GULF OIL-PRODUCING ECONOMIES, WHICH COPE WITH HIGH RATES OF INFLATION DUE LARGELY TO THE POST-1973 INFLUX OF PETRODOLLARS WHILE SIMULTANEOUSLY BEING BESET WITH LABOR SHORTAGES.

23. OPTIMUM CURRENCY AREAS ARE ALSO GENERALLY BELIEVED TO REQUIRE A HIGH DEGREE OF MOBILITY OF THE MOVABLE FACTORS OF PRODUCTION, I.E., LABOR AND CAPITAL WITHIN THE REGION. LABOR SHORTAGES IN THE GULF HAVE LED TO UPWARD PRESSURES ON WAGES AND HAVE ATTRACTED WORKERS FROM OUTSIDE THE GULF. THERE IS VERY LITTLE MOVEMENT OF LABOR WITHIN THE REGION SINCE WORKERS ENTER UNDER CONTRACTS, WHICH ARE DIFFICULT TO

BREAK, AND ARE SENT HOME AT THEIR COMPLETION. NOR IS THERE MUCH MOBILITY OF CAPITAL WITHIN THE GULF REGION. SHOULD THE DINAR SCHEME BE IMPLEMENTED, WITH THE INTEREST RATE CONVERGENCE THAT THIS IMPLIES, CAPITAL WOULD BE EVEN LESS LIKELY TO MOVE.

24. WHILE FULL MONETARY UNION IS HIGHLY UNLIKELY, SOME FORM OF A COMMON CURRENCY MAY WORK FOR A WHILE AMONG THE CONFIDENTIAL

PAGE 08 STATE 064165

FOUR PARTICIPANTS SIMPLY BECAUSE THEIR ECONOMIES ARE SO SIMILAR AND SO SIMILARLY AFFECTED BY OUTSIDE FORCES. FOR IT TO SUCCEED, HOWEVER, WILL REQUIRE MONETARY POLICIES IN THE FOUR COUNTRIES THAT ARE, AT LEAST, ROUGHLY THE SAME. IF ONE OR MORE COUNTRIES RUNS A SIGNIFICANTLY TIGHTER OR LOOSER MONETARY POLICY THAN THE OTHERS, THIS WILL LEAD TO IMBALANCES IN THE MONETARY DEMAND IN DIFFERENT PARTS OF THE AREA. SUCH IMBALANCES COULD STRAIN, PERHAPS FATALLY, THE WILLINGNESS OF THE MEMBER COUNTRY SUFFERING A CURRENCY LOSS TO USE FOREIGN EXCHANGE TO REDEEM ITS OWN BANKNOTES FROM A MEMBER SURPLUS COUNTRY.

25. OUTLOOK.

26. EFFORTS TO CREATE A COMMON CURRENCY IN THE GULF SHOULD BE SEEN IN THE CONTEXT OF THE DESIRE OF THE PARTICIPANTS TO FOSTER REGIONAL COOPERATION IN MANY ECONOMIC SECTORS. THE GULF DINAR IS THE REGIONAL ECONOMIC CONCEPT THAT SO FAR HAS RECEIVED THE GREATEST SUPPORT FROM FOUR GULF STATES AND REPRESENTS MORE A SYMBOL OF POLITICAL COOPERATION THAN A MEASURE OF ECONOMIC UNITY.

27. REPRESENTATIVES FROM THE FOUR GULF STATES PARTICIPATING IN THE DINAR SCHEME FAILED TO HOLD A SCHEDULED MEETING IN NOVEMBER 1976 TO WORK OUT REMAINING DETAILS. THEIR LACK OF AGREEMENT TO DATE ON RESIDUAL TECHNICAL POINTS MAY INDICATE THAT THE COMMON CURRENCY PROPOSAL IS RUNNING OUT OF STEAM, BUT MORE LIKELY THERE IS MERELY A DELAY BECAUSE OF OVERRIDING DEMANDS OF OPEC PRICING QUESTIONS ON THE GULF OFFICIALS' TIME.

28. ECONOMIC INDICATORS.

(A) KUWAIT:
AREA: 6,200 SQUARE MILES
POPULATION: 1.1 MILLION
CONFIDENTIAL

PAGE 09 STATE 064165

GNP: DOL 13.9 BILLION (1975); DOL 13,500 PER CAPITA
EXPORTS: DOL 8.1 BILLION (1976 EST.); 98 PERCENT OIL

IMPORTS: DOL 3.0 BILLION (1976 EST.)

OIL PRODUCTION: 2,150,000 B/D (1976).

(B) UNITED ARAB EMIRATES:

AREA: 32,000 SQUARE MILES

POPULATION: 656,000

GNP: DOL 7.3 BILLION (1975); DOL 11,000 PER CAPITA

EXPORTS: DOL 7.3 BILLION (1976 EST.); 96 PERCENT OIL

IMPORTS: DOL 3.0 BILLION (1976 EST.)

OIL PRODUCTION: 1,942,000 B/D (1976).

(C) QATAR:

AREA: 4,000 SQUARE MILES

POPULATION: 160,000

GNP: DOL 1.8 BILLION (1975); DOL 11,000 PER CAPITA

EXPORTS: DOL 1.78 BILLION (1975); 98 PERCENT OIL

IMPORTS: DOL 410 MILLION (1975)

OIL PRODUCTION: 487,000 B/D (1976).

(D) BAHRAIN:

AREA: 230 SQUARE MILES

POPULATION: 269,000

GNP: DOL 400 MILLION (1974); DOL 1,690 PER CAPITA

EXPORTS (INCLUDING REEXPORTS): DOL 1.0 BILLION (1976
EST.) 45 PERCENT OIL

IMPORTS: DOL 1.3 BILLION (1976 EST.)

OIL PRODUCTION: 58,000 B/D (1976). END TEXT.

VANCE

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, INTERGOVERNMENTAL COOPERATION, CURRENCIES
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE064165
Document Source: ADS
Document Unique ID: 00
Drafter: INR/REC: CSMONROE:JMB
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D770099-0104
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197703111/baaaevmr.tel
Line Count: 356
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 24a501b0-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2965150
Secure: OPEN
Status: NATIVE
Subject: NATO ASSESSMENT SERIES CONTRIBUTION
TAGS: EFIN, XF, KU, BA, QA, TC, NATO
To: OIC PTC INFO ALL NATO CAPITALS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/24a501b0-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009